

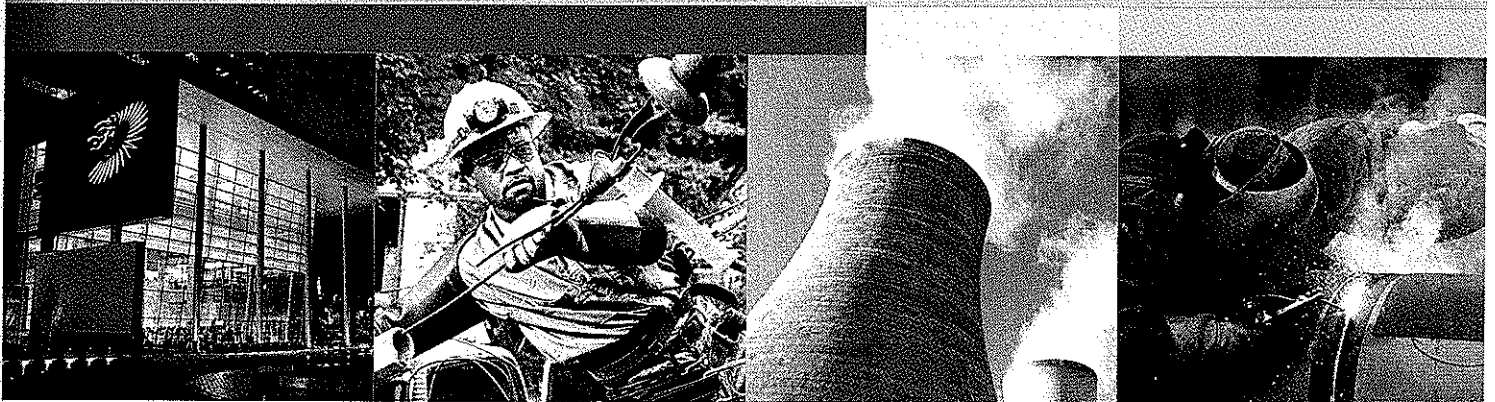


DTE Energy®

Written Comments in Support of Senate Bills 437-438

Senate Energy & Technology Committee

Gerry Anderson, Chairman and Chief Executive Officer



Good afternoon, Chairman Nofs, Vice Chairman Proos, Vice Chairman Hopgood, and members of the Senate Energy and Technology Committee. My name is Gerry Anderson; I am the Chairman and CEO of DTE Energy. Thank you for providing me the opportunity to testify today in support of Senate Bills 437 and 438. We have begun what will be a fundamental transformation of the electric generation sector here in Michigan. I want to commend you for the time you have devoted to this policy and for your leadership in preparing Michigan for this transition.

When much of today's generation fleet was built in the 1950's and 60's in Michigan, it was built to serve all customers and to meet the rapidly expanding demand for electricity. Since the 2008 legislation capped Retail Open Access (ROA) at ten percent, deregulated energy providers have relied on such existing generation to serve their customers. While this was workable from a reliability standpoint for a time, it is not sustainable going forward as those plants are now shutting down. Michigan will retire 60 percent of its coal fired generation, or 30 percent of its total generation, in the next fifteen years, and that process has begun.

The electric generation transformation we are facing today is not being driven by demand like it was 50 to 60 years ago. Rather, it is being driven by the parallel emergence of two powerful forces. The first of those sources is economically viable natural gas and renewable generation. The second are numerous environmental regulations with which Michigan continues to comply.

I want to provide an example of why action is critical at this stage of Michigan's energy transformation. DTE Electric's River Rouge Unit 2 power plant has served Michigan for 59 years with reliable, affordable power. It generates 250 megawatts of electricity, enough to power 50,000 homes. Recently, a part of the turbine in this plant failed – which after decades of operation, can happen. We evaluated the option of replacing the turbine and estimate the cost could approach \$20 million. An investment of this scale in a plant that is nearly 60 years old simply does not make economic sense for our customers. As a result, River Rouge Unit 2 will not be repaired and has come offline permanently. In addition, 10 other generation units across Michigan retired this month. The electricity these units produced is no longer available to serve Michigan's families and businesses.

Some have accused the utilities of crying wolf as plants go offline. However, last year, the Michigan Public Service Commission released their annual report reviewing the status of the ROA program in Michigan. In this report, they point to 2016 plant retirements as a cause for concern. The Commission specifically stated that there “appears to be a gap in planning and procurement of adequate resources for the long-term for customers served under the Customer Choice Program.” The commission emphasized “the urgency and importance of this issue in Michigan to the overall reliability and affordability of electric supplies.”¹ Yesterday, MISO testified before this committee stating, “Resource adequacy processes must exist to ensure long-term reliability and ensure resource adequacy outcomes in all time horizons.”² The legislation before you today addresses these issues. It provides a framework for a long-term plan for reliable electric supply by holding all energy providers accountable for their share of local supply.

As Michigan builds and renews the infrastructure required to meet its energy needs, managing the price of electricity is a critical component of this transformation. The utility, power, and gas sector is the most capital intensive industry in the nation, and just like any major infrastructure project, building power generation infrastructure takes careful planning to ensure safety, reliability, and affordability. It takes three to five years to complete a new, natural gas plant. Energy providers need to begin making decisions today to serve capacity needs at the end of this decade.

Additionally, the continued prioritization of cost-of-service principles will ensure affordable and competitive rates going forward. This legislature has recognized the importance of those principles both with the 2008 energy legislation and Public Act 169 passed in 2015. However, under the current hybrid regulatory structure, there is an inherent subsidy that has shifted over \$1.7 billion in reliability costs to customers supplied by the utilities since 2008.

Going forward, if this inherent subsidy is not addressed, cost-of-service rates are simply not possible; 10 percent of demand in our state will continue to be subsidized by 99.7 percent of customers.

¹ Michigan Public Service Commission. “Status of Electric Competition in Michigan.” January 29, 2015.

² Midcontinent Independent System Operator (MISO). “MISO Resource Adequacy Review: Michigan Senate Energy & Technology Committee Meeting.” April 27, 2016.

Senate Bills 437 and 438 are bills that will drive economic progress in Michigan. Meeting our state's energy needs also means supporting a broad network of businesses and suppliers across Michigan. Since 2010, DTE Energy has sourced \$4.5 billion from Michigan businesses. Our Michigan supplier network is made up of over 1,600 businesses in 63 counties. In Oakland County, over 325 businesses work with us to power Michigan. We work with 128 businesses in Muskegon, Kent, and Ottawa counties. These businesses ensure competitive, high-quality services for our state. Your constituents own, operate, and are employed by these businesses. They provide us value and help to grow our economy. These employers stand to have an even greater role as Michigan's energy sector transforms, helping to strengthen our state's economy.

Before I conclude, I would like to take a moment to address claims made by opponents to this legislation. Some claim that this bill kills ROA. This is hyperbole that misrepresents the true intention of the policy before you. This bill preserves the ROA option for customers. It does that while also taking steps to protect all customers by ensuring all energy providers meet their fair share of our state's reliability requirements.

What would kill ROA, however, is the lack of adequate resource planning. Michigan, just like most states around the country, has a 15 percent reserve margin requirement. I want to emphasize that these reserve margins are absolutely essential for electric reliability. A dip in that margin could compromise reliability. As we retire and rebuild power plants in Michigan, not properly planning for the 10 percent of Michigan served by ROA could absolutely undermine this reserve margin and seriously threaten the state's reliability.

Given the configuration of the state's grid, Michigan's Lower Peninsula needs approximately 21,000 megawatts of in-state generation to meet its energy needs. Under the current energy policy, as power plants are retired and capacity in the market tightens, the ~2,000 megawatts of electricity needed to meet ROA customer needs may simply not be available. If the alternative energy suppliers don't contract with or invest in generation to replace their proportional share, our reserve margin could drop sharply, to 5 percent in the extreme. That could severely impact both

reliability and our economy. It is imperative to establish a policy where every electric provider in Michigan takes responsibility for their proportional share of reliability.

I urge this Committee to secure Michigan's energy future and vote in favor of Senate Bills 437 and 438. Doing so would position us to address the coming transformation in a manner that preserves the reliability of supply and enables us to transition the state to a much more modern, efficient, and sustainable generating fleet.

Thank you again for your focus on Michigan and the electric reliability and affordability that support our great state.